MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BAC3664 – ACCOUNTING THEORY

(All sections / Groups)

29 MAY 2019
9.00a.m – 12.00p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **TWO** pages (excluding cover page) with **FOUR** Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Theory construction are traditionally developed from two approaches: (1) inductive approach and (2) deductive approach. Differentiate between the inductive and deductive approaches. (5 marks)

b) Define Normative and Positive theories. Briefly, discuss how these theories contribute towards the shape of financial accounting practice? (8 marks)

c) Explain any **TWO (2)** purposes for establishing a conceptual framework of accounting? (4 marks)

d) Define accounting postulates. Briefly, explain any **THREE (3)** accounting postulates in financial accounting. (8 marks)

(Total: 25 marks)

QUESTION 2

a) Briefly outline the arguments against the extent of regulation relating to financial accounting based on the free market perspective. Provide **THREE (3)** theories to support your arguments. (15 marks)

b) It is argued that although regulation might be introduced with the aim of protecting the 'public interest', this objective will not ultimately achieved because the regulator body may not be fully independent. Discuss this argument and support your discussion with: (1) Capture Theory and (2) Economic Interest Group Theory.

(10 marks)

(TOTAL: 25 marks)

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QUESTION 3

a) The agency problems that arise as a result of delegating decision-making authority from the owner to the manager are referred to Positive Accounting Theory (PAT) as agency costs of equity. PAT investigates how particular contractual arrangements based on accounting numbers can be put in place in order to minimize agency costs associated with the problems.

i) Explain **THREE (3)** main agency problems in perspective of manager-shareholder relationship. (9 marks)

ii) Suggest an example of recommendation to minimize the problem. (6 marks)

b) Healey and Wahlen (1999) explained Earnings Management (EM) in terms of managers using their judgement in financial reporting and structuring transactions to alter financial reports.

i) Earnings management is considered either unethical or fraud? Provide your argument. (5 marks)

ii) Explain tendency of managers to practice earnings management according to bonus plan hypothesis. (5 marks)

(TOTAL: 25 marks)

QUESTION 4

a) "Anthony has an access to insider information (private) and is able to make large gain on securities market as a result of using information that is not widely known".
Discuss your argument whether situation above is to indicate market efficiency or market is inefficiency. (16 marks)

b) Currently, various voluntary disclosure are made on corporate website. Discuss the potential benefit of voluntary disclosure. (9 marks)

(TOTAL: 25 marks)

End of questions